

**REPORT OF THE AUDIT OF THE  
LETCHER COUNTY  
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
June 1, 2006 Through June 6, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**LETCHER COUNTY**  
**SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period**  
**June 1, 2006 Through June 6, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Letcher County Sheriff for the period June 1, 2006 through June 6, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$5,710,959 for the districts for 2006 taxes, retaining commissions of \$222,234 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,486,239 to the districts for 2006 Taxes. Taxes of \$1,385 are due to the districts from the Sheriff and refunds of \$2,361 are due to the Sheriff from the taxing districts.

**Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Did Not Distribute Monthly The Interest Earned On Tax Collections

**Deposits:**

The Sheriff's deposits as of December 15, 2006 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured     \$532,251

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2006 TAXES .....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	9
COMMENTS AND RECOMMENDATIONS .....	13





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jim Ward, Letcher County Judge/Executive  
Honorable Danny Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the Letcher County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through June 6, 2007. This tax settlement is the responsibility of the Letcher County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Letcher County Sheriff's taxes charged, credited, and paid for the period June 1, 2006 through June 6, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Jim Ward, Letcher County Judge/Executive  
Honorable Danny Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Did Not Distribute Monthly The Interest Earned On Tax Collections

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

April 21, 2008



LETCHER COUNTY  
DANNY WEBB, SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period  
June 1, 2006 Through June 6, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 449,811	\$ 499,636	\$ 1,661,296	\$ 442,891
Tangible Personal Property	152,957	191,785	600,554	479,125
Fire Protection	4,003			
Prior Year Franchise Taxes	7,221	9,302	29,746	
Current Year Franchise Taxes	70,316	85,018	270,956	
Additional Billings	169	187	620	166
Oil and Gas Property Taxes	169,798	188,607	609,969	167,186
Limestone, Sand, & Mineral	1,644	1,826	5,904	1,618
Penalties	6,059	6,720	22,282	6,091
Adjusted to Sheriff's Receipt	(232)	(247)	220	
Gross Chargeable to Sheriff	861,746	982,834	3,201,547	1,097,077
<u>Credits</u>				
Exonerations	14,975	17,862	57,041	36,037
Discounts	10,461	11,949	38,932	16,004
Delinquents:				
Real Estate	29,278	32,409	108,821	28,728
Tangible Personal Property	1,337	1,676	5,209	4,594
Prior Year Franchise Uncollected	653	846	2,637	
Current Year Franchise Uncollected	2,084	2,614	8,098	
Total Credits	58,788	67,356	220,738	85,363
Taxes Collected	802,958	915,478	2,980,809	1,011,714
Less: Commissions (a)	34,413	38,908	105,628	43,285
Taxes Due	768,545	876,570	2,875,181	968,429
Taxes Paid	768,432	875,590	2,874,118	968,099
Refunds (Current and Prior Year)	501	545	1,926	490
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	\$ (388)	(b) \$ 435	(c) \$ (863)	\$ (160)

(a), (b), and (c) See Next Page

The accompanying notes are an integral part of this financial statement.

LETCHER COUNTY  
 DANNY WEBB, SHERIFF  
 SHERIFF'S SETTLEMENT – 2006 TAXES  
 For The Period June 1, 2006 Through June 6, 2007  
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	2,720,150
4% on	\$	1,620,378
3% on	\$	1,360,431

(b) Special Taxing Districts:

Library District	\$	46
Health District		(70)
Extension District		535
Soil Conservation		<u>(76)</u>

Due Districts or (Refunds Due Sheriff)	<u>\$</u>	<u>435</u>
---	-----------	------------

(c) School Taxing Districts:

Common School	\$	(1,667)
Independent School		<u>804</u>

Due Districts or (Refunds Due Sheriff)	<u>\$</u>	<u>(863)</u>
---	-----------	--------------

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT

June 6, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LETCHER COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 6, 2007  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 6, 2007 all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 15, 2006, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement as follows:

- Uncollateralized and Uninsured \$532,251

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2006 through June 6, 2007.

Note 4. Interest Income

The Letcher County Sheriff earned \$6,930 as interest income on 2006 taxes. The Sheriff did not distribute the appropriate amount to the school district or fee account as required by statute. As of June 6, 2007, the Sheriff owed \$3,084 in interest to the common school district, \$387 in interest to the city school district and \$3,459 to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Letcher County Sheriff collected \$28,414 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Letcher County Sheriff collected \$2,505 of advertising costs and \$2,505 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To Honorable Jim Ward, Letcher County Judge/Executive  
Honorable Danny Webb, Letcher County Sheriff  
Members of the Letcher County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Letcher County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through June 6, 2007, and have issued our report thereon dated April 21, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Letcher County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Letcher County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Letcher County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through June 6, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Did Not Distribute Monthly The Interest Earned On Tax Collections

The Letcher County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Letcher County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

April 21, 2008



## COMMENTS AND RECOMMENDATIONS



LETCHER COUNTY  
DANNY WEBB, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period  
June 1, 2006 Through June 6, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Did Not Distribute Monthly The Interest Earned On Tax Collections

During the course of our audit, we noted that the Sheriff did not distribute interest in a timely manner. According to KRS 134.140(3)(b), the Sheriff should pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During 2006 tax collections, the Sheriff earned interest of \$6,930 in his tax account. However, the Sheriff did not pay any interest to the schools or to the fee account. As of June 6, 2007, the Sheriff owed the Letcher County Board of Education \$3,084, Jenkins Independent School \$387, and the Letcher County Sheriff 2006 Fee Account \$3,459. We recommend the Sheriff comply with KRS 134.140(3)(b) by paying on a monthly basis the amount of interest due the schools and fee account.

*Sheriff's Response: This is now being paid monthly.*

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the Sheriff's office has a lack of adequate segregation of duties. A control deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper collects, deposits, and records all receipts and prepares all records all checks. In addition, the bookkeeper prepares all bank reconciliations. Good internal controls dictate that the same employee should not be handling, recording and reconciling cash receipts. Lastly, authorized check signers should be independent of check preparation, cash receiving, and purchasing.

If the Sheriff can not segregate these duties, compensating controls such as the Sheriff recounting the daily deposits, agreeing deposits to daily tax reports, and agreeing deposits to the receipts ledger should be implemented. The Sheriff should document this review by initialing and dating the bank deposit, daily checkout sheet, and receipts ledger. The Sheriff could also periodically compare the bank reconciliations to the balance in the checkbook and document this by initialing and dating the bank reconciliation and the balance in the checkbook. We recommend the Sheriff review office procedures to address this control deficiency.

*Sheriff's Response: I will be reviewing an initialing the reports.*

